APPENDIX A

City of Riverside Investment Policy

CITY OF RIVERSIDE
INVESTMENT POLICY
NOVEMBER 1999

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POLICY

In accordance with the Charter of the City of Riverside and under authority granted by the City Council, the City Treasurer is responsible for investing the unexpended cash in the City Treasury.

The investment of the funds of the City of Riverside is directed toward the goals of safety, liquidity and yield. The State of California authority governing investments for municipal governments is set forth in the California Government Code, Sections 53601 through 53659.

The primary objective of the investment policy of the City of Riverside is **SAFETY OF PRINCIPAL.** Investments shall be placed in securities as outlined in the authorized investments and maturity sections of this document. Effective cash flow management and resulting cash investment practices are recognized as essential to good fiscal management and control. The City monitors cash flow on a daily basis and reports results to City Council monthly to help ensure that liquidity is never threatened. The City's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and local law. Portfolio management requires continual analysis and as a result the balance between the various investments and maturities may change in order to give the City of Riverside the optimum combination of necessary liquidity and yield based on cash flow projections.

SCOPE

The investment policy applies to all financial assets of the City of Riverside as accounted for in the Comprehensive Annual Financial Report (CAFR). Policy statements outlined in this document focus on the City of Riverside's pooled funds, but will also apply to all other funds under the City Treasurer's span of control unless specifically exempted by resolution. This policy is applicable, but not limited to all funds listed below:

- -General Fund
- -Electric Fund
- -Water Fund
- -Sewer Fund
- -Redevelopment Funds
- -Refuse Fund
- -Capital Outlay Fund
- -Special Capital Improvement
- -Trust and Agency Funds

-Any new fund created by the City Council unless specifically exempted

One exception does exist regarding the investment of bond reserve funds. If in the opinion of the City Treasurer, matching the segregated investment portfolio of the bond reserve fund with the maturity schedule of an individual bond issue is prudent given current economic analysis, the investment policy authorizes extending beyond the five year maturity limitation as outlined in this document if the necessary language is contained in the specific bond documents.

PRUDENCE

The standard to be used by investment officials shall be that of a "prudent investor" and shall be applied in the context of managing all aspects of the overall portfolio. Investments shall be made with judgement and care, under circumstances then prevailing, which persons of prudence, direction and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The City Treasurer and other individuals assigned to manage the investment portfolio, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments. .

OBJECTIVES

Safety of Principal

Safety of principal is the foremost objective of the City of Riverside. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, Broker-dealer default or erosion of market value. The City shall seek to preserve principal by mitigating the two types of risk, credit risk and market risk.

Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio.
Market risk, defined as market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by limiting the average maturity of the City's investment portfolio to three years, the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis, thereby eliminating the need to sell securities prior to maturity and avoiding the purchase of long term securities for the sole purpose of short term speculation.

Liquidity

Because the City operates its own electric and water utility and bills monthly for these services, significant cash flow is generated on a daily basis. Historical cash flow trends are compared to current cash flow requirements on an ongoing basis in an effort to ensure that the City's investment portfolio will remain sufficiently liquid to enable the City to meet all reasonably anticipated operating requirements.

MATURITY MATRIX

It is the City's full intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars.

However, it is realized that market prices of securities will vary depending on economic and interest rate conditions at any point in time. It is further recognized, that in a well diversified investment portfolio, occasional measured gains or losses are inevitable due to economic, bond market or individual security credit analysis. These occasional gains or losses must be considered within the context of the overall investment program objectives and the resultant long term rate of return.

Maturities of investments will be selected based on liquidity requirements to minimize interest rate risk and maximize earnings. Current and expected yield curve analysis will be monitored and the portfolio will be invested accordingly. The weighted average maturity of the pooled portfolio should not exceed three years and the following percentages of the portfolio should be invested in the following maturity sectors:

Maturity Range	Suggested Percentage
1 day to 7 days	10 to 50%
7 days to 180	10 to 30%
180 days to 360 days	10 to 30%
1 year to 2 years	10 to 20%
2 years to 3 years	0 to 20%
3 years to 4 years	0 to 20%
4 years to 5 years	0 to 20%
over 5 years	Council Authorization Required

PERFORMANCE EVALUATION

Investment performance is continually monitored and evaluated by the City Treasurer. Investment statistics and activity reports are generated on a monthly basis for presentation to the City Manager and City Council. .

Since the weighted average maturity of the pooled portfolio can not exceed three years, the investment portfolio shall be designed to attain a market-average rate of return comparable to the average one year U.S. Constant Maturity Treasury (CMT). The one year CMT average will be calculated over the last two year period ending June 30.

DELEGATION OF AUTHORITY

The Charter of the City of Riverside and the authority granted by City Council on an annual basis assigns the responsibility of investing unexpended cash to the City Treasurer, who shall establish procedures for the operation consistent with this investment policy. In the City Treasurer's absence, the Revenue & Contracts Manager and Treasury Supervisor are authorized to initiate investment transactions.

INVESTMENT COMMITTEE

An investment committee consisting of members appointed by the City Manager shall be established to provide general oversight and direction concerning policy related issues concerning management of the City's investment pool. The City Treasurer shall not be a member of the committee but will serve in a staff and advisory capacity. The committee shall meet at least quarterly unless circumstances require more frequent meetings.

ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program, or impairs their ability to make impartial investment decisions. Additionally, the City Treasurer is required to annually file applicable financial disclosures as required by the Fair Political Practices Commission.

SAFEKEEPING OF SECURITIES

To protect against fraud or embezzlement, or losses caused by collapse of an individual securities dealer, all securities owned by the City shall be held in safekeeping by a third party bank trust department, acting as agent for the City under the terms of a custody agreement or PSA agreement (repurchase agreement collateral). All trades executed by a dealer will settle **delivery vet payment (DVP)** through the City's safekeeping agent.

Securities held in custody for the City shall be independently audited on an annual basis to verify investment holdings.

All exceptions to this safekeeping policy must be approved by the City Treasurer in written form and included in monthly reporting to City Council.

INTERNAL CONTROL

Separation of portfolio management and record keeping between the City Treasurers' Office and the Controller's Office is designed to provide an ongoing internal review to prevent the potential for converting assets or concealing transactions.

Existing procedures require all wire transfers initiated by the Finance Department-Treasury Section be reconfirmed by the appropriate financial institution to non-Treasury staff. Proper documentation obtained from confirmation and cash disbursement wire transfers is required for each investment transaction. Timely bank reconciliation is conducted to ensure proper handling of all transactions.

The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by the Controller's office on a monthly basis.

An independent analysis by an external auditor shall be conducted annually to review internal control, account activity and compliance with policies, procedures and applicable laws.

REPORTING

The City Treasurer shall prepare monthly reports for the City Manager and City Council which shall include the face amount of the investment, the classification of the investment, the name of the institution or entity, the rate of interest, the maturity date, the current market value and accrued interest due for all securities. The report shall also detail all repurchase agreements and reverse repurchase positions and associated liabilities.

QUALIFIED BROKER/DEALERS

The City shall transact business only with banks and broker/dealers. The broker/dealers should be primary dealers regularly reporting to the New York Federal Reserve Bank. Exceptions will be made only upon written authorization by the City Treasurer. Investment staff shall investigate dealers who wish to do business with the City to determine if they are adequately capitalized, have pending legal action against the firm or the individual broker and make markets in the securities appropriate to the City's needs.

The City Treasurer shall annually send a copy of the current investment policy to all broker/dealers approved to do business with the City. Receipt of this policy shall be considered confirmation that the broker/dealer understands the City's investment policies and intends to offer the City only appropriate investments authorized by this investment policy.

COLLATERAL REQUIREMENTS

Collateral is required for investments in certificates of deposit, repurchase agreements and reverse repurchase agreements. In order to reduce market risk, the collateral level will be at least 102` of market value of principal and accrued interest.

The only securities acceptable as collateral shall be direct obligations of, or fully guaranteed as to principal and interest by, the United States or any agency of the United States.

AUTHORIZED INVESTMENTS

Investment of City funds is governed by the California Government Code Sections 53600 et seq. Within the context of the limitations, the following investments are authorized, as further limited herein:

1. United States Treasury Bills, Bonds, and Notes or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation of the portfolio which can be invested in this category, although a five year maturity limitation is applicable.

2. Obligations issued by the Government National Mortgage Association (GNMA), the Federal Farm Credit System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal National Mortgage Association (FNMA), the Student Loan Marketing Association (SLMA), and the Federal Home Loan Mortgage Association (FHLMC). There is no percentage limitation of the portfolio which can be invested in this category, although a five year maturity limitation is applicable.

Investments detailed in items 3 through 10 are further restricted to percentage of the value of the portfolio in any one issuer name to a maximum of 15%. The total value invested in any one issuer shall not exceed 5% of the issuers net worth. Again, a five year maximum maturity limitation is applicable unless further restricted by this policy.

3. Bills of exchange or time drafts drawn on and accepted by commercial banks, otherwise known as banker's acceptances. Banker's acceptances purchased may not exceed 270 days to maturity or 40% of the value of the portfolio.

4. Commercial paper ranked P1 by Moody's Investor Services or Al by Standard & Poor's, and issued by domestic corporations having assets in excess of $500,000,000. Purchases of eligible commercial paper may not exceed 180 days to maturity nor represent more than 10% of the outstanding paper of the issuing corporation. Purchases of commercial paper may not exceed 15% of the value of the portfolio.

5. Negotiable Certificates of deposit issued by nationally or state chartered banks or state or federal savings institutions. Purchases of negotiable certificates of deposit may not exceed 30% of the value of the portfolio. A maturity limitation of five years is applicable.

6. Repurchase agreements with specific terms and conditions may be transacted with banks and broker/dealers. The maturity of the repurchase agreements shall not exceed 90 days.

The market value of the securities used as collateral for the repurchase agreements shall be monitored by staff and shall not be allowed to fall below 102% of the value of the repurchase agreement. A PSA Master Repurchase Agreement is required between the City of Riverside and the broker/dealer or financial institution for all repurchase agreements transacted.

7. Reverse repurchase agreements which specifies terms and conditions may be transacted with broker/dealers and financial institutions but can not exceed 20% of the portfolio value on the date entered into. The City may enter into reverse repurchase agreements only to fund short term liquidity needs. The term of reverse repurchase agreements may not exceed 90 days.

8. Local Agency Investment Fund (LAIF), which is a State of California managed investment pool, may be used up to the maximum permitted by California State Law.

9. Time deposits, non-negotiable and collateralized in accordance with the California Government Code, may be purchased through banks or other financial institutions. Since time deposits are not liquid, no more than 25% of the investment portfolio may be invested in this investment type. Collateral must be at least 102% of principal and accrued interest of each time deposit computed and reported on a daily basis.

10. Medium Term Corporate Notes, with a maximum maturity of five years may be purchased. Securities eligible for investment shall be rated AA or better by Moody's or Standard & Poor's rating services. Purchase of medium term notes may not exceed 30% of the market value of the portfolio and no more than 15% of the market value of the portfolio may be invested in notes issued by one corporation. Commercial paper holdings should also be included when calculating the 15% limitation.

11. Ineligible investments are those that are not described herein, including but not limited to, common stocks and long term (over five years in maturity) notes and bonds are generally prohibited from use in this

portfolio. On occasion, special circumstances arise that necessitate the purchase of securities beyond the five year limitation which require City Council approval prior to purchase.

12. Various daily cash funds administered for or by trustees, paying agents and custodian banks contracted by the City of Riverside may be purchased as allowed under State of California Government Code; Only funds holding U.S. Treasury or Government agency obligations can be utilized.

The following summary of maximum percentage limits, by instrument, is established for the City's total pooled funds portfolio:

Investment Type	Percentage
Repurchase Agreements	0 to 100%
Local Agency Investment Fund	$30,000,000 per acct.
US Treasury Bonds/Notes/Bills	0 to 100%
US Government Agency Obligations	0 to 100%
Bankers' Acceptances	0 to 40%
Commercial Paper	0 to 15%
Negotiable Certificates of Deposit	0 to 30%
Time Certificates of Deposit	0 to 25%
Medium Term Corporate Notes	0 to 30%
Reverse Repurchase Agreements	0 to 20%

DERIVATIVE INVESTMENTS

Derivatives are investments whose value is "derived" from a benchmark or index. That benchmark can be almost any financial measure from interest rates to commodity and stock prices. The City of Riverside's investment policy shall be in compliance with California State Government Code which, effective January 1996, prohibits the purchase of inverse floaters, range notes, interest only strips or securities that could result in zero interest accrual at any point in the life of the security.

Additionally, use of derivative type securities is further limited to investments tied solely to interest rate structures, such as repurchase agreements, step-up and floating rate securities.

Future purchases of securities classified as derivative securities must be issued by an agency or entity authorized by this investment policy and must receive prior approval from the City Treasurer.

LEGISLATIVE CHANGES

Any State of California legislative action, that further restricts allowable maturities, investment type or percentage allocations, will be incorporated into the City of Riverside's Investment Policy and supersede any and all previous applicable language.

INTEREST EARNINGS

All monies earned and collected from investments authorized in this policy shall be allocated monthly based on the cash balance in each fund as a percentage of the entire pooled portfolio.

LIMITING MARKET VALUE EROSION

The longer the maturity of securities, the greater their market price volatility. Therefore, it is the general policy of the City to limit the potential effects from erosion in market values by adhering to the following guidelines:

> All immediate and anticipated liquidity requirements will be addressed prior to purchasing all investments.
>
> Maturity dates for long-term investments will coincide **with** significant cash flow requirements where possible.
>
> All long-term securities will be purchased with the intent to hold all investments to maturity under then prevailing economic conditions. However, economic or market conditions may change, making it in the City's best interest to sell or trade a security prior to maturity.

PORTFOLIO MANAGEMENT ACTIVITY

The investment program shall seek to augment returns consistent with the intent of this policy, identified risk limitations and prudent investment principals. These objectives will be achieved by use of the following strategies:

<u>Active Portfolio Management</u> Through active fund and cash flow management combined with taking advantage of current economic and interest rate trends, the portfolio yield may be enhanced with limited and measurable increases in risk by adjusting the weighted maturity of the total portfolio.

<u>Security Swaps</u> The City may take advantage of security swap opportunities to improve the overall portfolio yield. A swap which improves the portfolio yield may be selected even if the

transactions result in an accounting loss. Documentation for swaps will be included in the City's permanent investment file documents.

Competitive Bidding It is the policy of the City to require competitive bidding for investment transactions that are not classified as "new issue" securities. For the purchase of non "new issue" securities and the sale of all securities at least three bidders must be contacted. Competitive bidding for security swaps is also suggested but not required. However, the pricing of the swap should be verified to current market conditions and documented for auditing purposes.

POLICY REVIEW

The City of Riverside's investment policy shall be adopted by resolution of the City Council on, at minimum, an annual basis. This investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and yield, and its relevance to current law and financial and economic trends. Any amendments to the policy shall be forwarded to City Council for approval.

City of Riverside Investment Policy **---** ***Glossary of Terms***

Accrued Interest- Interest earned but not yet received.

Active Deposits- Funds which are immediately required for disbursement.

Amortization- An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.

Asked Price- The price a broker/dealer offers to sell securities.

Basis Point- One basis point is one hundredth of one percent (.01).

Bid Price- The price a broker/dealer offers to purchase securities.

Bond- A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Book Value- The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

Certificate of Deposit- A deposit insured up to $100,000 by the FDIC at a set rate for a specified period of time.

Collateral- Securities evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.

Comprehensive Annual Financial Report (CAFR)- The official annual financial report for the City. It includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principals (GAAP).

Constant Maturity Treasury (CMT)- An average yield of a specific Treasury maturity sector for a specific time frame. This is a market index for reference of past direction of interest rates for the given Treasury maturity range.

Coupon- The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

Credit Analysis- A critical review and appraisal of the economic and financial conditions or of the ability to meet debt obligations.

Current Yield- The interest paid on an investment expressed as a percentage of the current price of the security.

Custody- A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.

Delivery vs. Payment (DVP)- Delivery of securities with a simultaneous exchange of money for the securities.

Discount- The difference between the cost of a security and its value at maturity when quoted at lower than face value.

Diversification- Dividing investment funds among a variety of securities offering independent returns and risk profiles.

Duration-The weighted average maturity of a bond's cash flow stream, where the present value of the cash flows serve as the weights; the future point in time at which on average, an investor has received exactly half of the original investment, in present value terms; a bonds zero-coupon equivalent; the fulcrum of a bond's present value cash flow time line.

Fannie Mae- Trade name for the Federal National Mortgage Association (FNMA), a U.S. sponsored corporation.

Federal Reserve System- The central bank of the U.S. which consists of a seven member Board of

Governors, 12 regional banks and 5,700 commercial banks that are members.

Federal Deposit Insurance Corporation (FDIC)- Insurance provided to customers of a subscribing bank which guarantees deposits to a set limit (currently $100,000) per account.

Fed Wire- A wire transmission service established by the Federal Reserve Bank to facilitate **the** transfer of funds through debits and credits of funds between participants within the Fed system.

Freddie Mac- Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. sponsored corporation.

Ginnie Mae- Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the U.S. Government.

Inactive Deposits- Funds not immediately needed for disbursement.

Interest Rate- The annual yield earned on an investment expressed as a percentage.

Investment Agreements- An agreement with a financial institution to borrow public funds subject to certain negotiated terms and conditions concerning collateral, liquidity and interest rates.

Liquidity- Refers to the ability to rapidly convert an investment into cash.

Market Value- The price at which a security is trading and could presumably be purchased or sold.

Maturity- The date upon which the principal or stated value of an investment becomes due and
payable.

New Issue- Term used when a security is originally "brought'' to market.

Perfected Delivery- Refers to an investment where the actual security or collateral is held by an independent third party representing the purchasing entity.

Portfolio- Collection of securities held by an investor.

Primary Dealer- A group of government securities dealers that submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.

Purchase Date- The date in which a security is purchased for settlement on that or a later date.

Rate of Return- The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Repurchase Agreement (REPO)- A transaction where the seller (bank) agrees to buy back from the buyer (City) the securities at an agreed upon price after a stated period of time.

Reverse Repurchase Agreement (REVERSE REPO)- A transaction where the seller (City) agrees to buy back from the buyer (bank) the securities at an agreed upon price after a stated period of time.

Risk- Degree of uncertainty of return on an asset.

Safekeeping- see custody.

Sallie Mae- Trade name for the Student Loan Marketing Association (SLMA), a U.S. sponsored corporation.

Secondary Market- A market made for the purchase and sale of outstanding issues following the initial distribution.

Settlement Date- The date on which a trade is cleared by delivery of securities against funds.

Treasury Bills- U.S. Treasury Bills which are short-term, direct obligations of the U.S. Government issued with original maturities of 13 weeks, 26 weeks and 52 weeks; sold in minimum amounts of $10,000 in multiples of $5,000 above the minimum. Issued in book entry form only. T-bills are sold on a discount basis.

U.S. Government Agencies- Instruments issued by various US Government Agencies most of which are secured only by the credit worthiness of the particular agency.

Yield-The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

Yield to Maturity- The rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

Yield Curve- The yield on bonds, notes or bills of the same type and credit risk at a specific date for maturities up to thirty years.

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